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Ontario Economic Council

Northern Ontario Development

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NORTHERN ONTARIO DEVELOPMENT

ISSUES AND ALTERNATIVES

1976

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PREFACE

The most striking feature of public affairs during the past two decades has been the rapid growth in the size and complexity of government. Reflecting this development, the Ontario Economic Council two years ago decided to focus much of its attention on government expenditure programs, particularly in the four fields of health, education, urbanization, and social security. In considering each of these fields, special emphasis has been given to two basic themes: the size, growth and effectiveness of public expenditure programs; and the impact of these programs upon the personal distribution of income and wealth.

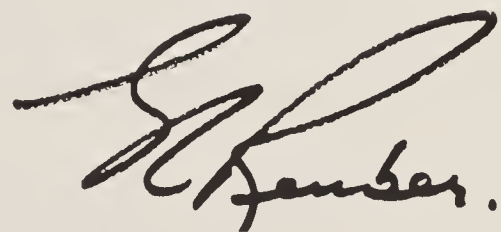
In addition to its work on public expenditure programs, the Council has also given priority to two related topics: national independence and the development of Northern Ontario, both of which pose long-standing concerns.

This is one of a series of papers that the Council is issuing on each of the six areas where we are concentrating our attention at present. The purpose of these papers is to highlight the principal issues, as we see them, and to provide a framework for discussion about improvements in government policies in these areas.

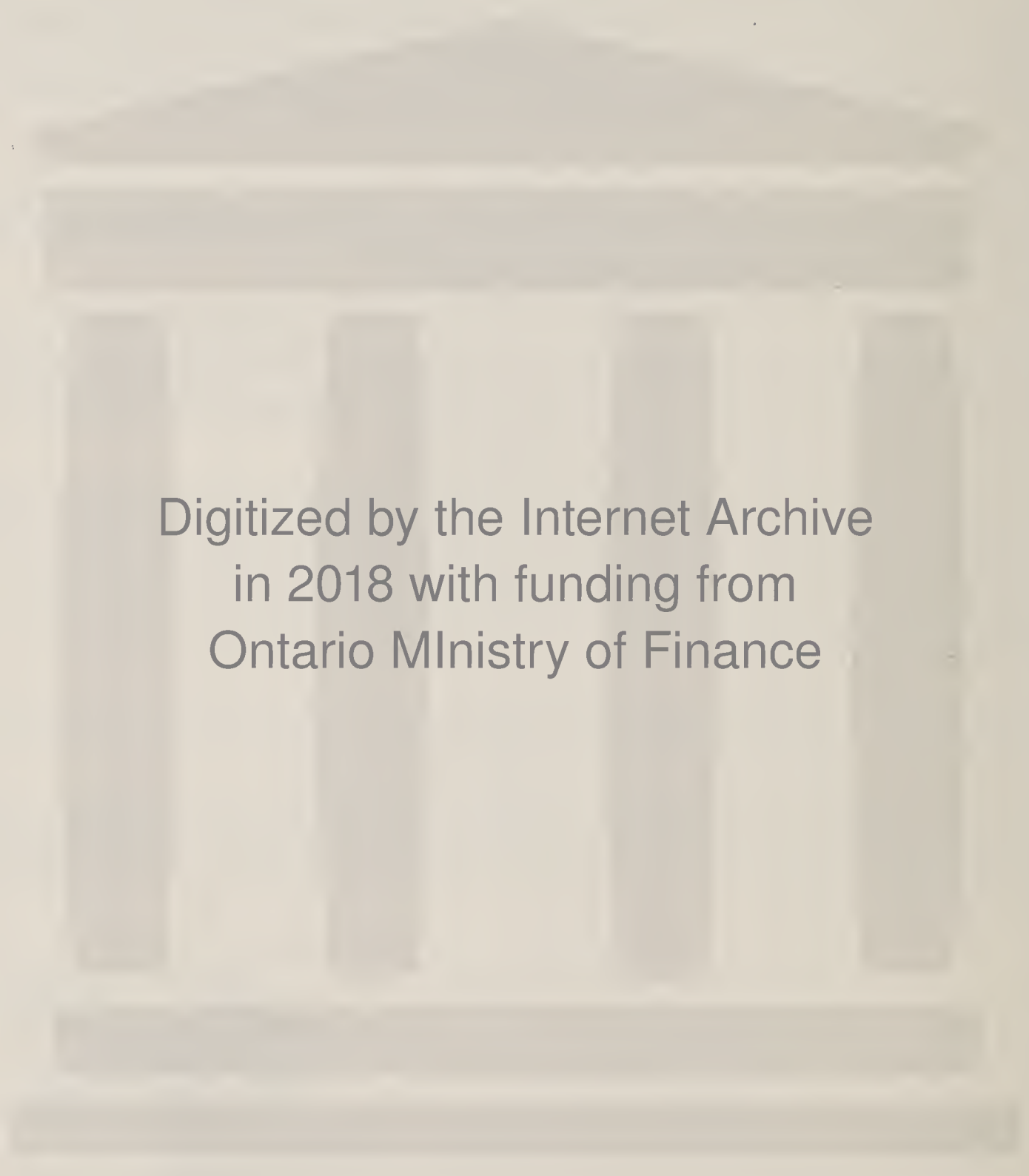
In this paper we raise what we regard as the most pressing issues of the day concerning the development of Northern Ontario. We also offer suggestions which we believe warrant further examination for alternative policy approaches to these issues. The Council itself is undertaking research to explore some of the questions that arise, which will be made public as it is completed.

It is the Council's hope that this report will make a useful contribution to the evolution of public policy as it affects questions of northern development.

While each member of the Ontario Economic Council does not necessarily subscribe completely to everything said in this report, the report does reflect a strong consensus of Council Members' views.

A handwritten signature in black ink, appearing to read 'G.L. Reuber'.

G.L. Reuber
Chairman
Ontario Economic Council



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I. INTRODUCTION

Government activity, in terms of direct expenditures as well as in terms of the creation of policy and legislation, has played an important role in the socio-economic development of northern Ontario.

This paper is intended to promote public discussion of some of the more important issues related to northern Ontario development. It does not attempt to deal with all problem areas. Because the scope of the subject is broad, it focuses on those issues which the Council considers to be central to an analysis of northern development. By concentrating only on the major issues, the Council hopes to provide a basis for a rational reconsideration of the current approaches to northern development.

This report begins with a brief overview of the main economic and demographic characteristics of the region. This procedure is adopted because of the relative lack of knowledge about northern Ontario and its residents.

The specific programs dealt with reflect some of the major attempts made by the Government of Ontario to reduce regional disparities. Their relative lack of success warrants detailed examination.

In this report the Council has confined itself to the two most important industries in northern Ontario: minerals and forest products. Any new initiatives in regional policies, of necessity, must be heavily dependent for their success on influencing these sectors of the economy. Industries, such as agriculture, are not examined.

Government policy is not simply what government says it is doing or would like to do: it is what it actually does. One could extract from various speeches or documents reams of 'policy statements' and 'policy initiatives'. This kind of exercise is generally not very fruitful.

The Province has enunciated its regional development goals rather vaguely. The statements are unlikely to cause offense to any member of the community. Commitments to 'expanding social and economic opportunities' and, 'adequate development of the natural environment', are commendable as ideals but fail to highlight the real impact or the real intent of public policy.

For this reason, in this Report the Council has chosen to concentrate on the actual operation of specific programs. The intent is to draw attention to the principal directions of current regional development policy.

II. AN OVERVIEW OF NORTHERN ONTARIO

Two of Ontario's five planning regions are in northern Ontario. The Northeastern region is comprised of the districts of Algoma, Cochrane, Manitoulin, Nipissing, Sudbury and Timiskaming. The districts of Thunder Bay, Kenora, and Rainy River make up the Northwestern region.

In both regions, settlement tends to be rather dispersed — a tendency that becomes more marked as one moves further north. The general pattern of urban settlement has been determined largely by resource availability. Mining and forestry have been crucial to the development of northern Ontario, especially in terms of influencing the location of urban centres, the extension of infrastructure and, in particular, the transportation system.

Resource dependency manifests itself in the structural features of northern Ontario's economy. Mining, forestry, and pulp and paper are the dominant industries, both in terms of employment creation and income generation. Tourism has become a major industry but is hampered by the relatively difficult access to the region from the major population areas of the continent.

Reliance on resources for an economic base has also resulted in increased vulnerability to changes in world markets. Cyclical movements in demand and prices, coupled with the depletion of non-renewable resources, frequently adversely affect the stability of the many communities heavily dependent on one or, at the most, a handful of economic pursuits. Internally, the relatively small population base means that purchasing power in many communities in northern Ontario is often not sufficient to sustain small supporting industries: distances and linkages within the market area are not conducive to the realization of substantial economies of scale or the achievement of minimum cost production in most industrial activities.

The labour force participation rates for both northern regions tend to be lower than for the Province as a whole. In 1971 the participation rate for males in Northwestern Ontario was 76.9 percent; in Northeastern Ontario it was 76.8 percent. For the Province as a whole it was 80.3 percent.¹ The disparity in female participation rates is even more striking: for 1971, the rates were 39.1 percent in Northwestern Ontario, 35.6 percent in Northeastern Ontario, and 44.3 percent for the Province as a whole.²

Two relevant facts should be noted: 1) the participation rates for women have increased substantially since 1961, while that for men has declined slightly; 2) the difference in participation rates between northern Ontario and the rest of the Province can largely be explained by the fact that there are fewer employment opportunities for women in the resource-oriented firms that are typical of northern Ontario.

Forestry and mining industries have been the mainstays of the northern economy. Their effect on employment, however, has been relatively less significant than the growth of output would suggest. This relates to the nature of the industries. Both forestry and mining are highly capital intensive and productivity has been increasing rapidly. Even though output has responded positively to increases in demand, employment has remained constant and, in some cases, has declined.

There may be a risk of over-generalizing, but the phenomenon of a relatively declining labour force in the resources sectors, presumably can be explained by the factors of intensified competition on the one hand, and a lack of adequate social and cultural amenities on the other: both forces have contributed greatly to the increasing capital intensity of these industries.

Population growth in northern Ontario has been slower than for the Province as a whole. For the period 1966 to 1971, the region's population grew from 739,712 to 776,505, an increase of 5 percent. This compares with an average increase for the Province as a whole of 10.7 percent over the same period. Population in Northeastern Ontario grew from 546,472 in 1966 to 582,379 in 1971, an increase of 6.6 percent and in the Northwestern region from 223,484 in 1966 to 224,370 in 1971, an increase of 0.4 percent.³

Population movements have tended to be in the direction of the urban areas; as a consequence about three quarters of northern Ontario's population is now classified as urban.⁴

Incomes in northern Ontario tend to be below the Provincial average, although in the last few years growth in average personal income has been better than for the Province as a whole.⁵

There are two interesting features to the distribution of income in northern Ontario: first, there is a marked variation in personal income by district, which can be illustrated by comparing Manitoulin with Algoma or Sudbury, or Kenora with Thunder Bay; the second feature, related to the first, is that, on the average, personal incomes are higher in the most urbanized districts of northern Ontario to the extent that average incomes in the Algoma and Sudbury districts exceed the Provincial average.⁶ This phenomenon is attributable to high wages due to the dominance of such capital intensive industries as mining and pulp and paper.

Although from the standpoint of aggregate indicators of economic wealth, Ontario ranks among the most prosperous of the ten provinces, such measures do not reveal the significant economic disparities among Ontario's five planning regions. The level of many common social and cultural amenities are also generally acknowledged to be low in northern Ontario. Per capita income levels in many parts of the Northeastern and Northwestern planning regions of the Province, in fact, compare unfavourably with the corresponding provincial and national averages.⁷

III. REGIONAL DEVELOPMENT AS A CONCEPT

The post-war growth of Ontario's economy, and the accompanying prosperity, has underlined the unequal participation by various provincial regions in overall economic growth. The generally accepted measures of economic well-being still tend to show substantial regional differences.

Elements which are central to aggregate provincial economic growth play a similar, if perhaps a more visible, role at the regional level. The strength of export markets, the quality and availability of infrastructure, the nature of entrepreneurship and the condition of the labour market, are only a few of the many factors which directly influence the health and viability of a particular regional economy. Some regions tend to be in a better position than others to take advantage of market conditions. The extent to which a particular region is able to cope with adverse external changes depends, not only on government policy, but also on the inherent features and capabilities of the specific region. Indeed, a fundamental question which must be faced is the extent to which government intervention is effective or necessary in the implementation of a regional economic policy.

The following observations are typical of the attitude of many observers of regional development:⁸

Regional growth is almost inevitably unbalanced: some regions are better endowed with resources than others; investment is lumpy, and many projects have to be undertaken on a large scale at a very limited number of locations (due to demand constraints) to be economic; external economies provide a strong motive for agglomerating industrial investment at selected locations; markets are not distributed evenly, and this results in inter-regional imbalance in transport developments and market-oriented industries. Thus, economic forces are likely to lead to growth being concentrated in a limited number of leading regions.

If one accepts this argument, the rationale for a regional development strategy is limited.

Even in those countries which have adopted comprehensive regional strategies, there is little evidence that intervention has made a significant contribution to either reducing regional disparities or promoting economic growth. The major determinants of economic development have been the decisions of private enterprise and national policy formulation. These decisions — related to the feasibility of industrial activity, its location, size, etc. — are usually made by those outside a region. The allocation of public resources between regions will obviously affect the extent of local or regional initiatives. The larger the role of central government in public expenditure, the more the development of infrastructure and public services will depend on non-local or non-regional governments.

Due recognition must be given to the fact that purely regional influences are only one part of complex interactions which affect regional development. Thus, a strategy for an individual region must be designed to influence the development of a region within the

national or provincial setting: it can only be effective if it makes proper allowance for that setting. In the case of northern Ontario, the external environment is a crucial determinant of development: to the extent that Provincial policy makers are limited in their capacity to influence that environment, they are limited in their ability to influence regional development.

In addition to recognizing the limited role of any regional strategy, there is the further question of how regional goals and objectives should be set. There is no consensus, either within or among the regions of Ontario, as to the appropriate goals or targets to pursue. This is one consideration that makes the formulation of a policy to adjust regional imbalances difficult, both economically and politically.

These considerations introduce a concern: setting regional objectives may be an exercise which inspires hopes and aspirations that are unlikely to be fulfilled.

The Council believes that consideration should be given to relying to a greater extent on market forces to determine the distribution of economic enterprise. This process of encouraging or discouraging various activities through the forces of supply and demand has important implications for the role of public policy. First, the market system should work reasonably efficiently; and secondly, the distribution of income and wealth should be such that the voting system, via the market, is not distorted in favour of a few.

This does not preclude government intervention. It does, however, imply certain limitations on the application of public policy. Programs and policies which attempt to induce development may be successful in terms of improving economic conditions for northern Ontario or for northern residents, but their success may depend upon the subsidization (or other support) of inefficient enterprises. Such development means that, in overall terms, economic resources are not being used in their most efficient manner. This may be a price that Ontario residents are willing to pay to see greater economic development and opportunities in one region of the Province. But it also means that there is room for the consideration of alternative courses of action.

What is the proper role for government intervention in regional economic policy-making?

Should it be to provide a framework within which market forces work?

Should government actively engage in the process of economic development?

The Council believes that, under normal circumstances, the proper role of government in regional development is to allow general market forces to determine the location and level of economic activity.

The Council recognizes, however, that there are circumstances which warrant government intervention. These include situations where market imperfections or policy induced inefficiencies exist — circumstances under which government intervention in the form of, for example, subsidies would be consistent with improvements in overall efficiency.

Subsidies which simply attempt to induce growth at the local or regional level, however, are often not consistent with overall efficiency. Resources should be used to facilitate the rationalization of certain other activities, or even be used to provide assistance for

out-migration, rather than being used to prop up inefficient enterprises. As already emphasized, the basic principle should be to avoid maintaining local or regional growth through government policies which create or perpetuate inefficient economic activity.

The distributive effect of various incentive or subsidy programs is a second principle which should guide regional policy. The impact on the distribution of income should be examined in terms of overall equity and local equity. Consideration must be given to determining which groups are benefitting and which are, in effect, subsidizing other groups. In the past relatively little attention has been given to the actual distribution of costs and benefits; the need for growth and development, in aggregate, has tended to be the main concern.

Regional policies may generate problems of equity because of the use of incentives, such as subsidies or tax allowances for the private sector, as the foregoing discussion suggests; similar problems emerge when the provision of public goods and services is considered. These goods and services may be provided at prices which do not reflect their real cost or, sometimes, they are not priced at all.

The questions at issue here can be treated in terms of their equity implications.

For example, to what extent should residents of northern Ontario have access to the same range of public goods and services that are available in the most highly urbanized areas of the Province? Is it realistic to believe that an equivalent array of goods and services can be provided without some form of subsidization? If some public goods and services do require subsidization, on what basis should they be provided?

These questions serve to illuminate the nature of the problems associated with the provision of public goods and services.

There is a natural tendency to measure the magnitude of the regional economic disparity problem in terms of, for example, per capita income: it is important, however, to keep in mind that such measures indicate the symptoms of the problem, not the causes. The causes stem from differing resource endowments, distance from markets, low productivity, low investment, and a variety of structural difficulties, including market imperfections.

If the objective is defined as the reduction of regional economic disparities in terms of per capita income, several options follow, including: greater mobility out of the slow-growth regions, higher welfare assistance, or encouraging the development of the regional economy.

Many economists would contend that the best way to reduce regional economic disparities is to help people to move from slow-growth regions to more prosperous parts of the Province or country.

The Federal and Provincial governments have largely opted for programs that encourage the over-all development of a region as a solution to its economic problems.

The objective of the Department of Regional Economic Expansion (*DREE*), for example, is to promote economic expansion and social adjustment in the disadvantaged regions of Canada so that Canadians in those regions will have a greater opportunity to share in the nation's wealth. The essence of this approach is that it sees unemployment, under-employment, low productivity and low participation rates as the major problems to be tackled in the region.

An alternative course of action to the 'development approach' would be one which sought to increase labour mobility and assisted the orderly and efficient out-migration of those sections of the population which are under-employed or seek opportunities not available in the region.

This raises a question that is fundamental: is the objective of regional policies aimed at helping people in northern Ontario — in which case migration may be called for — or is it in some way intended to help 'the North' — in which case opportunities need to be created to keep people in northern Ontario.

Unless there is an understanding of the implicit differences between these two objectives, regional policies may simply exacerbate and protract the original problems.

Out-migration as a policy for reducing regional disparities quite obviously is not applicable to all of northern Ontario. Many regions and communities are capable of self-sustaining growth and development and clearly do not require measures aimed at increasing labour mobility.

In substantial portions of northern Ontario, however, such measures may be warranted. The marginal social and private benefits of out-migration — benefits that result from an improved balance among regional labour supplies and employment opportunities, increased aggregate employment, and transfer of labour to higher productivity industries — will conceivably be greater than any resulting costs.

The most serious objection to migration indeed, is that it involves social costs of a sort which are difficult to determine. There are, in fact, many measures — ranging from subsidies, to education and retraining, to direct financial assistance — which might be used to facilitate migration. Policies such as these should, however, be clearly designated as interim measures. They should not be designed as open-ended programs of public assistance.

IV. DEVELOPMENT POLICY AND PROGRAMS

Ontario is probably as advanced as any province in terms of provincial planning and development. The Province has a sophisticated administrative apparatus. It is also advanced in terms of policy, financial resources, and staffing.

The regional planning program, perhaps best known by its label, *Design for Development*,⁹ is furthest advanced in Northwestern Ontario. The Policy Recommendations — Phase 2 of the *Design for Development* for Northwestern Ontario — were published in 1970.

The enactment of Regional Priority Budgets in subsequent years provided the means for the implementation of the regional strategy.

If the basic philosophy behind *Design for Development* is to be understood, it is instructive to consider the way in which it is interpreted in the policy recommendations for Northwestern Ontario. The starting point is the “selection of centres of opportunity or growth points” as a “critical prerequisite for the orderly spatial and structural development of a region”.¹⁰

In Northwestern Ontario, the choice is of particular importance because of the long distances which separate most urban centres, and the slow growth of the Northwestern regional economy as a whole.

The selection of ‘growth points’ or ‘growth centres’ is a fundamental part of the regional development strategy, because it is assumed that the larger urban centres are more likely than other areas to provide employment opportunities.

These growth centres are of three types — primate, linked, and strategic. As defined in *Design for Development*, ‘primate’ centres are usually metropolitan areas and ‘linked’ centres are “tied in whole, or in part to primate centres”,¹¹ but are outside the immediate geographical area of the primate centre. ‘Strategic’ centres are not tied to any metropolitan area, but provide services for a particular area, usually based on resource activity.

In Northwestern Ontario, the absence of linked centres has led to a further breakdown of strategic centres into types ‘A’ and ‘B’. The characteristics which determine the appropriate designation of a centre include:¹²

- i) population base;
- ii) degree of diversification of industrial activity and employment opportunities;
- iii) degree of provision of urban amenities;
- iv) degree of accessibility to various transport modes;
- v) potential for growth and development.

In Northwestern Ontario the choice of Thunder Bay as a primate centre indicates its present status as the leading urban centre in the region and, in addition, its perceived potential for future development. Its designation as a primary centre was indicative of the intent of the government to allocate to it the function of providing “as far as possible, the widest range of activities and opportunities on a regional scope.”¹³

The initial designation of four centres as strategic ‘A’ and eight as strategic ‘B’ reflected

the feeling that these centres represented successively less potential for further growth and development. This led to the recommendation of 'moderate expansion' with the specific goals being outlined in the Phase 2 Report.¹⁴

The primary focus for new industry would be Thunder Bay, with second priority given to the strategic 'A' centres.

The specific list of recommendations provides some indication of the orientation towards regional development adopted by *Design for Development*. The recommendations for economic development generally fall into three broad categories:

- i) urging that government provide various sorts of financial incentives for private enterprise;
- ii) preparation of detailed feasibility studies in various sectors;
- iii) advocating various types of infrastructure development, including the establishment of industrial parks.

The recommendations with respect to such other areas of concern as transportation and communications, health and education, are sometimes specific and sometimes vague and general; however, they may be characterized as basically concerned with providing a climate and framework, through public responsibility for infrastructure that would tend to induce expansion of the private sector in the designated centres.

The commitment to this principle was reflected in fiscal year 1973-74 when Northwestern Ontario was the first of the planning regions to receive special financing under *Design for Development*. Financing amounted to \$2.4 million and covered such items as roads, airport navigation equipment and geological surveys. This financing was in addition to the regular Provincial spending in the region.

For fiscal year 1974-75, a Regional Priority Budget was established at \$9.3 million — additional special funds in a continuing program designed to solve the problems of regional disparity in northern Ontario.¹⁶ For 1975-76, the Regional Priority Budget initially was set at over \$50 million, but the subsequent Government 'restraint program' reduced it substantially.¹⁷

In addition to the Provincial contribution to these budgets, *DREE* made commitments based on the General Development Agreement, which was initiated in February, 1974.¹⁸ The Northwestern Ontario Subsidiary Agreement was signed at the end of May, 1975.¹⁹ This agreement is²⁰

designed to increase the number and range of viable employment opportunities in the northwestern part of the province. The agreement will enable the two governments jointly to implement measures involving infrastructure improvements and investigations into further development opportunities, with a view to strengthening the region's designated primate and strategic centres, increasing the net value of production by the local resource-based industries, improving the regional transportation and communications systems, and making optimum use of existing public investments in the region by rationalizing where possible its urban structure.

The specific projects provided for in this agreement are heavily weighted towards such infrastructure programs as resource access roads, sewage system improvements, and establishment of a new town site. Of the total expenditures of \$36.9 million, over 99 percent is allocated to these infrastructure projects and over 63 percent is directed towards Thunder Bay.²¹ A further subsidiary agreement, concerned with the Dryden area, was signed in March, 1975; it provides for \$2.8 million for water and sewage system improvements.²²

This focus on infrastructure development reflects the belief held by *DREE*, and the Province that "a key step in buttressing the role of a strategic community is the provision of development infrastructure assistance as required."²³

This process is perhaps best exemplified in the program planned for the Dryden and surrounding region.

This area's extreme reliance on forest products has resulted, in the past, in the forest resource sector being the major source of employment and municipal tax revenue. However, uncertainties about the future of the pulp and paper industry have led to adverse reactions on the part of developers, potential retail entrepreneurs, and others with the capability of providing urban services. The region is currently undergoing substantial expansion, especially in forest products and mining, and the existing financial capability of individual municipalities to provide adequate infrastructure and services is seriously in doubt. Shortages of serviced land for new residential and commercial development reflect the reluctance of developers to build in communities that are heavily dependent upon a single source of employment, as well as such infrastructure deficiencies as the inadequate capacities of water and sewage systems. The large-scale capital projects which must be mounted to improve these systems are seen as the most important single bottleneck.

The response of selective improvements in infrastructure seems to be a rational and important step in promoting development in Northwestern Ontario, given the existing private sector projects under way or planned, the relatively weak financial base of municipalities, and the commitment to the goal of "equalizing of opportunity — social and economic — in all parts of Ontario."²⁴

It is still much too early to evaluate the success of this approach to the development of this one region. However, in many ways, it represents a continuation of previous policies. In the effort to generate growth, the objective was consistent with the development of large-scale private resource projects encouraged by the public provision of infrastructure and services, the acceptance of the provision of relatively few permanent jobs because of the capital intensity of these industries, the absence of real diversification of the industrial and employment base and continued reliance on demand, external to the region.

An evaluation of *Design for Development* is premature in the absence of a detailed, province-wide planning strategy. The Council, however, can make the following observations. First, the strategy of designating certain centres as growth points inevitably reflects a compromise between purely social and economic considerations and those of a more political nature. Second, the policy of providing selective infrastructure on a regional basis needs to reflect to a greater extent long-term strategic planning. At the Provincial level, this has been evident in only the most general way. Thirdly, regional policy, as

enunciated for the Northwestern region, has not been as fully co-ordinated as it might have been with the other policy areas of immediate concern: in particular, the failure to provide a comprehensive transportation policy, while not entirely the responsibility of the Province, has strengthened the suspicion of many northern residents that they have been subjected to discriminatory structures and rates. Further, the lack of any major programs to meet housing needs points to the possibility of better long-term planning.

Many of the housing problems of northern Ontario stem from a failure to recognize the unique conditions facing developers, municipalities, and residents. In part, this may arise because of the over-centralization of administrative functions, which results in rigid criteria for zoning, building codes, and so on. This illustrates the kinds of problems which occur when a development strategy for a region is not linked to existing public programs in other sectors — programs which have an inertia of their own. Unless special care is taken to co-ordinate these various programs, an effective regional strategy is difficult to implement.

Since the conception of *Design for Development*, its focus has shifted as subsequent 'phases' of the program have been introduced. The intended objective — planning provincial development in a role "complementary to the private sector in helping to create an atmosphere for growth and development"²⁵ — has remained. But it represents little more than a hope. Local government reorganization, the creation of regional governments, the promise of 'a single, comprehensive provincial plan' — all have served at various times as the focus of *Design for Development*. The changing objectives of the program are, in part, a reflection of the inevitable political process of compromise and re-evaluation, but also, in part, indicative of a piecemeal approach which is not as conducive as it might be to the development of northern Ontario.

The absence of a comprehensive set of regional development policies is most apparent in transportation and housing. The problems we see in these areas are briefly discussed in the following section.

Transportation

Of the many unique features of northern Ontario, perhaps the most important is the widespread geographic dispersion of much of its population in relatively small centres.

These centres are not only distant from the major population and market areas of southern Ontario (as well as major market areas of the United States), but also are separated from each other by distances and terrain which prohibit convenient and efficient travel. Both constitute an inherent barrier to regional development and growth because they often result in transport costs playing a vital role in the production and distribution process of many firms. Existing enterprises are influenced through the effects of transportation costs on their competitive viability and, perhaps of greater concern, these costs often deter the expansion of existing firms and the initiation of new enterprises.

The role which transportation plays as a growth catalyst cannot be attributed simply to the cost elements involved: the potential of transportation as a vital factor for development is determined by the interaction of various elements, such as the type of resources and/or industries which presently exist in the area, the geographical relationship between the area and its prime markets, the alternative sources for the products of the area and a host of other factors.

Too often transport costs *per se* are seen as the crucial element in determining viable growth and development. While costs are undoubtedly important, it also must be recognized that transportation service can also be important. Easy access to several modes, speed, reliability, and the nature of the facilities, are transportation considerations which may be, in many cases, as important as the actual cost.

These problems — the result of such natural factors as distance, population spread and so on — are compounded by a division of responsibility for transport policy between various levels of government, as well as a division of administration between various agencies. The Federal government is ordinarily responsible for air and rail services and the Provincial government handles highway and road programs.

Transportation services in northern Ontario are more complicated than this simple dichotomy would suggest. For example, the Provincial air service and Ontario Northland Railway are both administered by a Provincial government agency — the Ontario Northland Transportation Commission. This assumption of railroad and air services is consistent with the Provincial government's intention of providing better transportation and communications facilities for northern Ontario.

It should be noted that the Commission primarily serves the Northeastern portion of Ontario. This area's basic transportation services are provided by a small number of trucking companies and one railway company. The railway and one of the trucking companies (Star Transfer Limited) are owned by the Provincial government.²⁶ In addition, the norOntair network provides a local and feeder service between most of the major centres of Northeastern Ontario and supplies links with regional and national air carriers.

In general terms, Provincial policy appears to be largely focused on adjusting to increased public demand. This comment seems fair in the light of the recent extension of norOntair services to Northwestern Ontario. Financial assistance at the federal level relates mainly to upgrading and maintaining airports, through the Ministry of Transport's Small Airports Assistance Program.

The overlapping of jurisdictions, combined with an absence of any clear transportation policy, has meant a lack of interface with regional policies. Thus,²⁷

in Ontario, for example, the Highway Transport Board that licenses carriers for specific routes does not have to adhere to any criteria which might help facilitate preferred regional development patterns of, say, the Province's Regional Planning Branch. Yet the regional planners often cite transport costs as a significant constraint on industrial dispersal. Thus, it would be in the public interest to remove counter-productive activities in these two areas.

The Provincial government has established an imposing presence in transportation in northern Ontario. Particularly for this reason the Council believes that serious consideration should be given, not only to the structure of transport modes, but also to the

extent to which government intervention, through licensing and regulation, has acted as a constraint to rational transport systems. The present system of regulating the entry of firms into highway transportation, for example, has contributed to the high rates which prevail in northern Ontario. It has been suggested that a lessening or removal of this high degree of regulation would serve to increase entry, lower the level of highway trucking rates, and act as a competitive spur and so tend to lower rates of alternative transport modes. The Council believes that partial or complete deregulation would provide significant benefits for Northern development; and it suggests that serious consideration be given to altering the extent of regulation.

Housing

The housing problems of northern residents are similar in many ways, to those encountered by individuals seeking accommodation in other parts of the Province. The phenomenon of housing costs rising more rapidly than income, coupled with the problem of the provision of adequately serviced lots, has been typical of the circumstances encountered by most residents of the province in their attempts to purchase homes or rent suitable accommodation.

In addition to these problems, many northern residents are faced with a set of problems unique to the north.

The Council does not propose to pursue this subject exhaustively, but considers it important to indicate the nature of some of these problems. They stem, in part, from the unique environmental and demographic features of northern Ontario. For example, the relatively short building season necessitates a level of capability in the planning, co-ordination, and execution of housing programs which is often beyond the means of individual communities. In addition, the short building season requires the expeditious processing of applications and building permits. Too often this processing is delayed by bureaucratic complications. The result is that approval for projects frequently comes too late for implementation in the current building season.

Housing costs are necessarily higher in northern Ontario because of several factors:

- i) increased transportation costs of many materials;
- ii) increased costs because of ground conditions;
- iii) increased costs because of the lack of professional contractors in many communities.

In addition, there are other general factors including, for example, the availability of mortgage funds. Understandably, many lenders are reluctant to advance funds for housing which is seen as semi-permanent. Because many residents of northern Ontario live in single-industry or single-resource communities, the dangers of depletion of resources or a fall in demand for the single product, provides a potentially insecure basis for future growth and development.

Additional impediments to adequate housing supply in northern Ontario are generated by the indiscriminate application of Province-wide standards. It is difficult to believe that standards set for southern metropolitan areas are necessarily relevant or required in many of the remote and relatively small communities in the northern regions of the Province. The additional costs which result from the application of procedures appropriate in the

south could be easily reduced by a more appropriate consideration of the actual requirements of northern communities, consistent with the maintenance of safety and health standards.

In terms of public policy as it applies to housing in northern Ontario, there is little recognition of the unique needs or problems encountered by northern residents. The only programs which provide such specific recognition are Northern Ontario Assistance in Housing (*NOAH*) and Ontario Housing Action Program (*OHAP*).²⁸

NOAH is a program that was initiated in March, 1973. It is intended to "provide low-income families in non-urban areas of northern Ontario, particularly in unorganized and remote communities, with assisted rental housing."²⁹ Although open to everyone, this program is specifically intended to assist non-status Indians and Metis. It is administered by the Ministry of Housing through the Ontario Housing Corporation.

OHAP is a program designed to "accelerate housing production in selected high-growth areas, and to encourage private developers and builders to direct more units towards families of moderate and low incomes, by improving the partnership between all levels of government and the private development industry."³⁰ *OHAP* is administered by the Ministry of Housing; it provides for a program of interest free loans to regional municipalities, direct unconditional grants to municipalities, mortgage assistance and co-ordinating and planning services, as well as housing study grants. This program is, however, of limited relevance to northern Ontario. It was announced in October, 1973, and is to be terminated on March 31, 1976. Of more serious consequence, the only areas of Northern Ontario which are designated as qualified to receive the benefits of *OHAP* are the cities of Sault Ste. Marie and Thunder Bay.

While not wishing to overemphasize the unique problems encountered by residents of northern Ontario, it seems evident that the region faces unusual burdens, which result from deficiencies in regional policy. Such a policy would provide the basis for formulating appropriate proposals in such areas as housing and transportation.

V. INCENTIVES FOR DEVELOPMENT

A common feature of most government attempts to influence regional development is the use of subsidy programs, either in the form of grants or loans. In northern Ontario a major regional development policy instrument is the Northern Ontario Development Corporation (*NODC*) which was established by the Provincial Government in late 1970. The purpose of *NODC*, is to "provide financial growth, economic development and employment opportunities in the North."³¹

NODC's activities are focussed in two broad loan programs. These are the Ontario Business Incentive Program and Term Loans. Under the Incentive Program, incentive loans are provided for secondary manufacturing, service industries in support of manufacturing, and tourist industries. There are three types of incentives available under this program:³²

- i) interest-free loans or a rate of interest lower than the Corporation's prevailing rate;
- ii) deferral of principal and/or interest payments;
- iii) the lease of buildings, with rental payments deferred or reduced for an initial period.

These loans may go up to 90 percent of approved capital costs for new operations or for the expansion of existing operations.

The other programs include *loans to small business* in manufacturing and services, and *venture capital loans* to small Canadian-owned business to "introduce new technology in the industrial field"; *pollution control equipment loans* provide funds for "existing companies unable to finance the purchase from their own resources"; *tourist industry loans* are "for applicants located or wishing to locate in areas where tourism is of major importance to the local economy";³³ *industrial mortgages and leasebacks* are for the construction of new buildings or expansion of existing buildings, and the purchase of new equipment and, finally, the *export support program* is designed to "provide assistance to northern Ontario based exporters encountering difficulties in financing exports of capital and consumer goods."³⁴

These various incentive programs basically involve the subsidization of the costs of financing various activities. Two criteria generally determine access to these programs:

- i) an inability to obtain financing from conventional lending institutions on reasonable terms and conditions;
- ii) the potential contribution to industrial and regional development of the activity, especially in terms of providing increased employment.

NODC is one of three development corporations which offer these programs: the others are the Eastern Development Corporation, which serves the Eastern Ontario region, and the Ontario Development Corporation which serves the Central and Southwestern areas of the Province.

The effect of *NODC* loans is difficult to estimate; the programs have been in operation for a relatively short period of time and have not yet achieved their maximum impact. Since the inception of the loans program, 347 loans, totalling \$50,167,000, have been

authorized. More than forty percent of the loans — accounting for forty-seven percent of the cash — were initiated in the fiscal year ending March 31, 1975.³⁵ At this stage it is premature to judge the effectiveness of the program.

The major federal program which provides incentives for regional development is that administered by the Department of Regional Economic Expansion (*DREE*) under the authority of the *Regional Development Incentives Act* (*RDIA*). The primary objectives of the *RDIA* programs are to “increase job opportunities and to reduce losses in the manufacturing and processing sectors in designated regions and special areas by stimulating private investment.”³⁶

This *Act*, in essence a successor to the 1965 *Area Development Incentive Act*, basically follows its precursor: it also attempts to promote employment and development by what one observer has called “subsidization at the margin”.³⁷

Prior to 1965, investment in lagging regions in Canada was fostered by a policy of tax exemptions and accelerated depreciation. Disenchantment with these techniques developed: profits were less than normal in the years immediately after the investment and, further, “much of the advantage from the program necessarily accrues as a windfall gain to firms that would be investing regardless of whether the incentive is provided or not.”³⁸ The new *Act* specifically states that “if it is probable that the facility would be established, expanded or modernized without the provision of such an incentive”³⁹ it would not be eligible for a development incentive grant.

As noted earlier, *DREE* also provides shared financing for projects carried out under General Development Agreements, in conjunction with Provincial Governments. The General Development Agreement usually involves the provision of more infrastructure, as well as additional resources for feasibility and identification studies.

The use of financial incentives in general, and *RDIA* in particular, has been strongly criticized. In essence, these criticisms state that the program is not consistent with its stated objectives.

R. Woodward has convincingly shown that the grants programs are essentially capital-biased because “they have lowered the cost of machinery and equipment by a greater percentage than the reduction in the cost of labour.”⁴⁰ As Woodward notes, this bias applies to the extent that individual firms are able to make decisions to substitute the use of capital for that of labour. In such cases the effectiveness of the subsidies is reduced because they create jobs at a per dollar cost higher than might be accomplished with other incentives.

Furthermore, it is only under certain conditions that capital-biased subsidies entail greater employment effects than neutral or labour-biased subsidies: the capital subsidy must be able to attract a greater number of firms; its indirect employment effects must be greater than those of neutral or labour-biased subsidies; it must induce greater agglomeration economies or, in the long run, cause a smaller reduction in the total number of employees in unsubsidized firms that already exist in the region. There is no evidence to suggest that these conditions have been met in most regions where the program applies.

In fact, the recent modifications of the *RDIA* subsidies have generally implied a lower employment subsidy and a higher average capital subsidy. In addition, because the labour subsidy has been changed from a fixed dollar amount per new employee to a percentage of wages and salaries, the implicit bias which originally existed towards low-skilled and cheap labour has been removed.

Woodward makes some interesting suggestions regarding possible modifications to *DREE's* subsidy program to bring it more closely into line with its stated objective of increasing employment. He suggests:⁴¹

- i) increasing the labour subsidy portion based on a percentage of wages and salaries;
- ii) increasing the dollars paid per job created;
- iii) reducing the capital subsidy and/or removing the capital constraints.

Additional criticism has centered on other aspects of incentive programs. For example, it is charged that they often result in the accrual of windfall gains to firms which would have gone ahead with their investments without the grants or with much lower grants.

There is a certain amount of evidence to indicate that a substantial portion of *RDIA* subsidies do, in fact, represent windfall gains. As Usher puts it, the department of government responsible for the policy "must know which among the set of all contemplated investment projects would be undertaken without the subsidy program, . . . which projects will be rendered profitable by the subsidy program, which existing facilities will be rendered unprofitable by the program, and above all, how much money need be granted to each project to induce the investment without generating windfall gains."⁴²

This could well be detrimental, especially if the impact of subsidized investments is such as to replace existing unsubsidized projects that are more efficient with those which are less efficient and may require a continuing series of injections of public funds.

There is, furthermore, scepticism as to the impact of the regional incentives program on the growth of employment. As pointed out earlier, the structure of the grants system as it now stands is capital biased, so that the generation of employment through additional investment tends to be obviated by the decrease in the labour intensity of the investment. Unless one can be sure that none of the subsidized investment would have gone ahead without the incentives, no additional employment may have been created. This, in fact, is the conclusion of a study of *AIDA* and *RDIA* grants to the Maritimes and Quebec.⁴³

To the extent that these subsidies attract firms to relatively lagging regions, their contribution to the development of such regions is reduced when they are capital intensive because of the predilection of such firms to purchase inputs from outside the region. This highlights one aspect of the distributional implications of the regional incentive system.

There are, of course, distributional aspects involved in any subsidy program. Not only are there distributional consequences as between subsidized and non-subsidized firms, but also there are implicit transfers from taxpayers in general to entrepreneurs in particular. Secondly, even if it could be verified that a program generated increased investment and employment, it would still be an open question whether it had done so at the expense of investment and employment elsewhere in Ontario. If resources were diverted from more productive uses elsewhere in the province to provide employment in a particular region, this would represent a decline in overall efficiency. These costs should be weighed against the benefits of a more equitable or balanced distribution of economic growth.

If these subsidies were to succeed in creating employment by encouraging the establishment of inefficient industries which lacked long-term viability, or if they were to represent an indirect method of income transfer, they would not likely be the best policy mechanism for achieving regional objectives.

Incentives and loan schemes have been among the most visible policies designed to promote industrial expansion and employment. The basic objective was a form of subsidy that would serve to compensate private enterprise for the 'additional costs' involved in locating or expanding in relatively under-developed regions. The benefits of the subsidies were seen largely as expanded employment. Besides the federal *DREE* program of subsidies, almost every political jurisdiction in North America is, in one way or another, involved in incentive programs for private enterprise. This has led students of incentive programs to the conclusion that these programs may only work to the extent that one region benefits at the expense of another. This raises serious questions as to the misallocation of resources at an aggregate level.

The use of incentives to encourage investment and employment in lagging regions is only one example of the use of subsidies by governments to achieve certain socio-economic aims. Despite the critical tone of the above discussion the Council does not wish to imply that incentives, as such, are necessarily an inefficient or irrational tool of government policy. There is a need, however, to consider carefully the form of these incentives. As mentioned earlier, perhaps these incentive schemes should be restructured so as to place a greater emphasis on their job-creating function, as opposed to encouraging investment *per se*.

Because of the number of governments which attempt to attract industry to their regions, the Council believes greater efforts should be made to co-ordinate incentive programs and policies. Sufficient evidence exists to show that competition between jurisdictions for private enterprise often courts the danger of 'overbidding', with a subsequent reduction of benefits. It is extremely difficult to accomplish effective intergovernmental co-operation. Nevertheless, the Council is of the view that further attempts should be made to ensure that systems of grants or loans are harmonized to avoid harmful bidding for new industry. Must the same can be said for taxation policy, an area in which there has been a conspicuous lack of co-operation.

VI. THE RESOURCE SECTOR

One of the most contentious areas of Canadian public policy in recent years has been resource taxation and development. This is especially true in northern Ontario. There are two main reasons for this concern. First, the appropriate rate of resource development by the private sector may not correspond to the public's perception of the desirable rate for such projects. Second, the impact of these decisions is felt much more strongly in precisely those northern communities in which such development takes place.

Mineral Policy

Mineral policy issues are complex. They include varying views as to the desirability of foreign investment, the prolonged dispute between the Federal and Provincial governments over the sharing of revenues, resource depletion, the effects of exports on Canadian self-sufficiency and the relationship between extraction and further processing. No attempt will be made here to deal comprehensively with all these issues, but some aspects of direct and immediate concern to northern Ontario might be briefly noted.

The mining industry is of significant importance to the overall economy of Ontario, but its most substantial impact is in northern Ontario. Many communities are, in fact, totally dependent on mining as a source of income and employment. In 1974, mineral production in Ontario exceeded \$2.4 billion, with metallic minerals accounting for 85.4 percent of production.⁴⁴ The most important individual products in 1974 were:⁴⁵

- nickel (production valued at \$761 million)
- copper (production valued at \$498 million)
- zinc (production valued at \$325 million)
- iron ore (production valued at \$172 million)
- gold (production valued at \$124 million)

There have been slight declines from time to time in the value of Ontario's mineral output, with the latest occurring in the early 70's, but since the early 1950s the overall trend has clearly been upward. Excluding fuels, the annual average growth rate of mineral production from 1961 to 1974 was 8.3 percent.⁴⁶ At the same time, the share of mineral output, again excluding fuels, in the gross provincial output has declined from 5.8 percent to 4.5 percent.⁴⁷ In part this relative decline represents the increasing diversification of the Ontario economy. In terms of Ontario's total exports, the mineral sector declined from 24 percent in 1966 to 14 percent in 1973. This compares with 32 percent and 26 percent for all of Canada over the same period.⁴⁸

The employment contribution of the mineral sector has been declining in recent years, as implied above. The following table shows the trend since 1966 in metal mining:

TABLE 1

Employment and Ore Tonnages Milled in Ontario Metal Mines,

1966-1973

	Northeastern Ont.		Northwestern Ont.		Southern Ont.	
	Employees	Tons of Ore	Employees	Tons of Ore	Employees	Tons of Ore
1966	22,798	35,071,340	4,026	7,049,927	332	902,928
1967	23,193	40,840,315	3,748	7,708,646	334	917,965
1968	23,302	49,751,579	3,656	10,609,641	365	927,991
1969	22,936	43,552,097	3,552	11,170,307	322	962,948
1970	24,013	50,246,324	3,380	12,903,169	331	945,903
1971	24,191	51,579,302	3,216	11,248,369	321	939,837
1972	21,515	43,249,494	3,457	12,450,295	318	955,394
1973	20,563	44,629,292	3,667	15,439,258	322	1,039,042

Source: *Ontario Mineral Review*, 1974

The Province's mineral policy aims are to: ⁴⁹

- i) Strengthen the contribution of minerals to regional development;
- ii) Realize opportunities for further mineral processing;
- iii) Improve mineral conservation and use;
- iv) Increase the return to Canadians from exportable mineral surpluses,

As with most general policy objectives, there is often conflict between their practical implementation and their theoretical desirability. Some of these problems are discussed in the next section.

The development of Ontario's natural resource sector has relied heavily on foreign investment as a method of exploiting the Province's natural endowments. Although, in recent years, there has been a trend towards increasing Canadian ownership in the mineral sector, these changes have not necessarily meant a reduction of conflict. Many observers claim that the essential features of foreign investment which produce controversy are those associated with the growth of multinational corporations. The growth of Canadian-controlled multinational corporations, while presumably subject to Canadian momentary, fiscal, and, 'moral suasion' policies, likely pose many of the same problems as those associated with foreign-controlled multinational corporations. External demand is a dominant consideration in their decision making. They must decide how to allocate their capital spending among various locations around the world. They presumably attempt to work out the most favourable tax balance. They market most of their output through vertically integrated operations.

To the extent that the large size and complexity of corporations in the natural resource field are the source of continuing conflicts with governments, other corporations and the public, the degree of foreign ownership, as such, is not the primary issue.

There have been serious attempts to ameliorate some of the pressing concerns with respect to natural resource development. The uncertain employment and income opportunities provided by resource-oriented industry have prompted attempts to stabilize economic activity in resource-dependent communities. For example, the Ontario Joint

Committee on Economic Policy has recommended that "as (an important step) in promoting balanced growth in the economy, the Province should intensify its efforts to diversify the industrial base, by increasing natural resource processing."⁵⁰ Similarly the Select Committee on Economic and Cultural Nationalism stated that, "... it is generally agreed that the extent of further processing of Canada's mineral wealth should be maximized to the greatest degree feasible."⁵¹

The Ontario government has responded to these concerns by introducing a system of processing allowances. These came into effect in April, 1974. In addition, Section 113 of the *Ontario Mining Act* stipulates that ores or minerals must be refined to a final, usable state "for direct use in the arts without further treatment".⁵² This provision, however, is subject to exemption by the Cabinet — an exemption which seems to have been granted frequently in the past. Nevertheless, there is an indication that Section 113 has caused a degree of uncertainty among potential investors, because the exemption from further processing is usually of limited duration. Large scale investment in new mineral developments may be deterred by present policy. The Select Committee Report recognized this problem and illustrated the complexities of the policy issues confronting the Government with the use of the following example:⁵³

Sufficient iron ore reserves exist in northern Ontario, but Canadian demand for iron ore is not sufficient to warrant development of an economic size northern Ontario iron ore mine at this time. It might be possible to develop an economic mine if the annual excess production is permitted to be exported. . . (however), it is unlikely that a foreign or Canadian-controlled steel company would be prepared to undertake a long-term commitment and/or investment in northern Ontario iron ore given the present degree of uncertainty.

This example raises a number of policy implications. At the present time the Canadian steel industry imports a large amount of coking coal from the United States. If, in addition, the Ontario steel industry became dependent upon United States iron ore, the industry and the country might find itself in difficulty (perhaps short-term) if the United States were to institute export controls on coking coal and iron ore.

Development of the ore body would also affect the economic and social viability of a number of northern Ontario communities. Therefore, it would also be necessary to evaluate these factors in addition to those discussed above.

In relation to iron ore, a recent study puts the issue even more starkly: "Two government policies are in conflict, namely Section 113 which discourages development and those that provide for encouragement of regional development."⁵⁴

Vertical integration of foreign-owned firms also has implications for tax policy. This was evidenced by the concern expressed in the iron ore study mentioned above. To the extent that the mining stage is operated at low profit margins, the⁵⁵

potential profit earning capacity of the mine is transferred to the purchaser of the iron ore. In the case of Canadian-owned mines, this is not serious, as the profits are taxed through earnings of the parent company. If the mine's output is purchased by a foreign processor, the potential profit exported with the ore and any government assistance results in benefit to the foreign purchaser. It can be expected then, that tax benefits from iron ore mining will be minimal, and taxes, either federal or provincial, will not be paid for many years after the mine has come into production.

One possible solution to this problem could be the imposition of a tax or royalty on the value of output, rather than on profits. It would be necessary, however, to ensure that any increased burden of taxation takes into account the possible and undesired effect of forcing purchasers to seek cheaper sources of supply elsewhere.

Present Government services are largely concentrated in programs which provide assistance for exploration and development. Examples of such policies are contained in the Mineral Exploration Assistance Program (*MEAP*), which provides funds on a shared (1/3) basis for approved exploration programs. Present policy seems to limit Government activity in this area, because "in Ontario it has been traditional to leave all the operational functions of the mineral industry — prospecting, development, extraction, refining, and marketing — to private enterprises".⁵⁶ This point of view has led, in the past, to such mechanisms as a favorable tax structure and the provision of much of the infrastructure required for successful development of mineral resources. As the Select Committee cautiously observes: "in retrospect one might suggest that these incentives were overly generous".⁵⁷ There are indications that the Provincial Government has recognized these problems and has reacted by increasing taxation and limiting the development of new resource towns. Both of these reactions have, in turn, initiated a new set of adverse conditions. In the case of increased taxation, a delicate balance must be drawn between appropriating a 'fair share' for the Province, while at the same time avoiding a climate of uncertainty and discouragement in the private sector. In the case of new resource towns, problems have arisen because of the burden placed on existing communities. Development of new resource projects has increased the demand for the provision of services by existing towns, without providing them with increased tax revenues. The Province should realize the position of these communities and consider appropriate methods of providing the necessary financial base.

Other forms of assistance to the mineral industry are contained in various programs. Geological surveys assess the mineral potential of various areas of the Province. The program to provide 'resource access' roads is of direct aid to the mineral industry. These service-oriented activities represent the major portion of the Provincial Government's involvement in the mineral industry at the present time.

Taxation

Perhaps the most important policy tool employed by the Provincial Government in the mineral field is the *Mining Tax Act* of 1972, as amended by *Chapter 132 (1974) and Ontario Regulation 126/75*. Basically the *Act* sets out the conditions under which profits from mining activities in Ontario are to be taxed.

There are several features of the *Act* which invite comment. First, the tax is based directly on profits accruing at the mining stage only. When the mine output is sold, the tax is simply the appropriate rate on the difference between gross receipts and allowable expenses. When the output of the mine is not sold in an unprocessed form, but is fed into further processing within the firm, the actual market value at the pithead is ascertained in lieu of gross receipts. If there is no way of determining actual market value the mine assessor appraises the value, taking into account both processing costs and an allowance for assumed profit at the processing stages. This aspect of determining the value of mineral output at the pithead has important policy implications: it interacts with a processing allowance scheme which discriminates both by stage of processing and by location of processing activity.

The *Act* spells out the nature of allowable expenses which may be deducted from gross receipts in order to arrive at taxable profits.⁵⁸ These include normal working expenses, depreciation on plant and equipment, and exploration and development expenses. A return on capital invested, depletion based on exhaustion of the ore or mineral and any royalties on or purchases of mineral rights are not allowable as expenses under the *Act*.⁵⁹

The 1974 Amendments to the *Act* resulted in a new progressive structure, while at the same time setting a tax free base of \$100,000. The new schedule is set out in Table 2.

TABLE 2
New Mining Profits Marginal Tax Rates, 1974

Profits (\$)		Marginal Tax Rate on Profits (%)
0 to	\$100,000	0
next	\$900,000	15
next	\$9,000,000	20
next	\$10,000,000	25
next	\$10,000,000	30
next	\$10,000,000	35
over	\$40,000,000	40

SOURCE: *Mining Tax Act, 1972 and Ontario Regulation 126/75, March 1975.*

The mining profits collected by Ontario from 1970 to 1974 are shown in Table 3.⁶⁰

TABLE 3
Proceeds of Mining Profits Tax and Percentage of Tax to the Value of Mineral Production

Fiscal Year	Millions of Dollars	Percent
1970	23.9	1.5
1971	25.0	1.6
1972	13.3	.9
1973	16.3	.9
1974	46.3	1.9

SOURCE: *Public Accounts of Ontario and Ontario Mineral Review, 1974.*

The increase in rates in 1974 has been widely interpreted as designed to capture a greater share of the windfall gains arising from the increase in mineral prices that occurred at that time. The Provincial Treasurer put it this way:⁶¹

Increased demand by major industrialized countries has resulted in sharply higher metal prices and substantial windfall gains for the mining industry in Ontario. . .It is (therefore) only fair that we secure for the people a higher return from our natural resources.

A further significant change in the *Mineral Tax Act* took place in the regulations governing the 'processing allowance' system. As indicated above, this system was intended to provide incentives which would encourage further processing of ores extracted in Ontario. The incentive takes the form of an allowance on the capital costs of processing facilities, deductible as part of normal expenses. The important features of this system are: that the allowance becomes progressively larger as the stages of processing move from concentrating through to refining; there is a differential allowance in favour of northern Ontario locations for refinery and semi-fabricating facilities; and there is no allowance for the cost of processing outside Canada. The rates are shown in Table 4.⁶²

TABLE 4

<u>Percentage of Value of Processing</u> <u>Assets Which May be Deducted in Computing Mining Profits Tax</u>			
Stage	Northern Ontario	Rest of Canada	Outside Canada
Concentrating	8	8	0
Smelting	16	16	0
Refining	30	20	0
Semi-Fabricating	35	0	0

SOURCE: *Mining Tax Act, 1972 and Ontario Regulation 126/75, March 1975.*

In order to understand the implications of these allowances one would need to have detailed information about costs at each stage of processing. It is clear that these incentives are directed towards encouraging further processing in northern Ontario, but the resulting allocation of benefits is not clear. For instance, there is a distinct bias towards capital in these incentives because the processing allowance is based on capital assets. This means that, given the level of output, the incentive increases as the capital/output relationship increases.

In addition, it is worth noting that these incentives, if obtained by relatively large firms, would allow them substantially greater benefits than firms operating on a significantly smaller scale. This is because the mining profits tax itself is graduated. Any processing allowances would serve to lower the marginal tax rate of large mining companies; smaller companies would have less to gain by reducing their marginal tax rates.

Finally, it seems clear that large, vertically integrated firms are in the best position to take advantage of these incentives. This implies a greater concentration of ownership and is likely to raise significant barriers to the entry of new and smaller competitors.

The most significant response to this program has been the recent commitment by a major base metal producer to build a new refinery near Timmins. This involves an investment of approximately \$200 million. This project is apparently directly attributable to the new allowance program.⁶³

Forest Industry Policy

Forest-based industries, along with mining, provide the basic strength of northern Ontario's economy, especially in the Northwestern region. This strength is, however, sometimes seen as a mixed blessing. Although based on a renewable resource, forestry has many of the characteristics of other natural resource industries. There is a marked reliance on external markets. This has meant cyclical movements of employment and income. The rate of exploitation has caused problems in the past and, in view of the substantial expansion of capacity in the forest industry, has become a major concern. The nature of much of the work in such primary activities as logging has lead to severe manpower shortages and high turnover rates. A major source of concern is the control of industrial waste, especially in the pulp and paper sector. Additional problems are evident in the increasingly high energy requirements of major portions of the industry. Finally, as in other natural resource sectors, there is the contentious question of obtaining a 'fair return' for the people of Ontario from the value of resources.

The Government of Ontario has formulated policies that bear on each of these issues. In some cases they are in the process of being revised. In others they have an ongoing status. We deal below with the relationship of some of these issues to development policies.

Because a large proportion of the output of the forest industries is exported, activity in these industries fluctuates with general economic conditions in external markets. The recent sharp decline in the U.S. residential construction market has put severe strains on lumber operations, resulting in substantial layoffs in woods operations and the shutting down or cutback of many sawmills. A change in this situation will have to await the recovery of the American economy.

This is an example of a problem faced by a resource-based regional economy dependent upon national and international economic developments. The recovery of the American economy in this example, is a crucial variable in the recovery of our forest industries. Purely regional or Provincial policies can have only a short-term, stop gap impact.

The availability and quality of the wood supply is an important component of provincial policy. It is pursued by programs of reforestation, silviculture and forest protection. In attempting to produce a volume of timber for industrial forestry, the Province has to balance carefully several conflicting objectives. The most obvious conflict is between environmental considerations and those which are more strictly related to economic considerations. A recent study recognizes that "one of the main problems facing forestry

today is how to satisfy growing social demands while reinforcing its contribution to economic development".⁶⁴ Yet this study goes on to argue that, "failure to develop fully the forest resource for the maximum economic contribution to both the regional and provincial economies may lead to more costly alternatives of subsidization of industry and/or relocation of people in the north and loss of employment in the south".⁶⁵

The rapid expansion of capacity currently taking place in some sectors of the forest industry is generating conditions which call for appropriate public policy responses.⁶⁶ Given this new capacity, a change in current policy will be necessary if the distinct potential for overcutting in the next decade or so is to be avoided. The maintenance of forest productivity is currently the responsibility of the Government of Ontario. A decision to increase the level of reforestation activity will mean increased expenditures, not only on direct forest management activities but, in addition, on all the associated infrastructure and public services. There will undoubtedly be an increased demand for skilled and semi-skilled manpower. However, pools of underemployed and unemployed labour are likely to continue to exist.

The main problems appear to be those associated with remote worksites which frequently lack social amenities, as well as the general nature of forest and millwork. Any attempts to stabilize employment will require increased expenditures of a relatively large magnitude. Increased infrastructure, to improve social and cultural amenities, would alleviate part of the problem if the infrastructure could be concentrated in relatively few locations. The dispersed nature of forestry operations, however, would make such a policy prohibitively expensive, other than in a small number of communities. The responsibility for the sharing of costs for any such developments would undoubtedly provoke disagreement between the private sector and the government.

Manpower training programs, either at the local or regional level, have often been advocated as a solution to such labour shortages. Besides the costs involved, a further difficulty is that many trainees choose to migrate once they have acquired marketable skills. This is particularly true of tradesmen who, although sometimes enjoying premium income, are prepared to work in isolated areas for only relatively short terms. When the general economy is revitalized many of these tradesmen are likely to be lured back to the more densely populated urban centres of southern Ontario.

Considerable public debate has taken place regarding the advantages of further processing of resources produced in northern Ontario. Additional costs of pursuing such a course of action result from two characteristics of the forest products industry. First, energy requirements are highest in the secondary processing stages — an observation that applies with equal validity to the mineral sector. The escalation in energy costs per dollar of value added may prove a severe constraint to policies designed to encourage further processing. Second, there is limited scope for developing secondary wood-using industries. These are generally based on local markets. Transport costs usually preclude any wider extension of these markets, especially to southern Ontario.

The principle instrument of public policy towards forest-based industries is the *Crown Timber Act* which applies at three levels:⁶⁷

- i) the licensing of wood and mill operations;
- ii) charges for wood cut on crown land;
- iii) reforestation, silviculture and forest protection.

The most radical departure in policy has related to changes in the level of stumpage charges or royalties applied to the industry. The Province's share in the total value of forest products in the form of timber revenues has been declining since 1951. At the same time as alternative uses of Ontario forests became more important, the value of timber increased, but was not reflected in higher Crown dues. Concern that the people of Ontario were not receiving an adequate return on their timber resources lead to an interim doubling of Crown dues in 1974, as well as a complete review of timber revenues.⁶⁸

The need to determine the true value of timber resources has become more important for several reasons. First, the price of forest products has increased. Second, the demand for alternative uses of forests has increased dramatically. And third, direct public expenditures on conservation, regeneration, and similar programs have increased substantially. But, as a recent Government report laments, "the basic problem of properly pricing timber resources in the face of an inadequate market system has remained essentially unsolved in Ontario".⁶⁹

In the absence of a competitive market for standing wood a 'fair' price for timber resources is very difficult to estimate; the result is a more or less subjective evaluation of the proper level of Crown dues. Nevertheless, the increasing prices of forest products, coupled with the rising costs of forest management, have led to the present interim change. The specific reasons for this change have been well documented in a recent analysis.⁷⁰

- i) Crown dues had not been substantially revised since 1951, except to provide concessions during the depressed market conditions of 1971.
- ii) Inflation had eroded the real value of the receipts from Crown timber such that a \$1.00 charge in 1951 would have to be increased to \$1.97 in the first quarter of 1974 to have the same real value.
- iii) Most provinces were currently revising stumpage charges upwards. Notably, British Columbia and Alberta had repeatedly raised their Crown charges in recent years in excess of the inflation rate.
- iv) Current prices of forest products were at very high levels. Industry was facing excellent markets and both reported profits and re-investment rates were high.
- v) Since 1951 the conflicts between uses of forest land for timber production and recreation had increased. Also, competition between various industrial sectors, like pulping and sawmilling, had increased. Therefore, allocation of the scarce forest resources must be done on the basis of the opportunity cost of the resource in other uses. Thus, if forest industries are to continue to claim that by cutting trees down they produce greater value from forests than other uses, such as parks and fish and wildlife production do without cutting trees, then they must be able to demonstrate it by a willingness to pay greater amounts for the cut trees than other users are willing to pay for keeping them standing.
- vi) The very low wood prices, having served their original purpose of attracting forest industries to the Province and thereby encouraging the opening up of the interior and its settlement, should now be raised to a 'fair' level so that the people of Ontario, as owners of the forest resources, can obtain a reasonable return. The contention that profits of forest products companies are also for the

benefit of the Province is not very convincing as some profits undoubtedly go not only outside Ontario but also outside Canada. Of the profits remaining within the Province some finally reach the Provincial Government as income tax but these cannot be identified as returns from timber. Thus, the owners remain in the dark about the value of their resources and cannot make rational choices in their disposal. The rest of the profits within Ontario, that are retained by the industry or given out as dividends, are completely outside the control of the public and may or may not be spent in the best collective interests of the Province. To call them a part of the return to the people of Ontario from their resources is therefore not very appropriate.

Because of the current recession in parts of the industry, these arguments, while convincing, are in danger of being ignored. Short-term benefits, and those of a much longer term nature — benefits which would result from increased charges for the resource which is collectively owned — will have to be carefully weighed.

VII. SUMMARY AND MAIN POLICY ISSUES

1. In this paper the Council has attempted to delineate some of the main problems that arise in trying to formulate development policies for northern Ontario. Relevant government policies and programs have been reviewed along with the efforts being made to alleviate economic problems. As in so many other policy areas, the issues involved in northern Ontario development raise fundamental questions with respect to the role of government. At one level, government intervention generates a basic problem in the implementation of public policy — a problem which manifests itself as a conflict between the provision of equality of opportunities, on the one hand, and the need to maintain sound, cost-effective expenditure programs, on the other.
2. It is clear that major differences exist between the economic and social welfare of northern residents and that attained by residents of much of the rest of the Province. These differences are reflected in income and cost statistics and in such social measures as health care, recreational and cultural facilities. Some communities in northern Ontario, however, are prosperous and thriving when compared with parts of southern Ontario. Further, many communities in the Province, not located in the north, exhibit characteristics similar to those of northern communities which are lagging in terms of economic growth or are seriously deficient in the level and quality of social and economic infrastructure. To some degree, the problems of development in northern Ontario are not unique to its specific boundaries and province-wide solutions may be required. (see pages 3-8).
3. In order to be realistic, policies which are designed to reduce or eliminate regional disparities must recognize that their effectiveness is subject to certain limitations. The general course of development in northern Ontario will be largely determined by forces which are, at best, only marginally responsive to Provincial public policies. Private decision-making and national and international policies, in most instances, have a greater impact on regional growth and development than specific regional policies. (see pages 3 - 8).
4. In many instances artificial barriers which induce inefficiency have been created or perpetuated by bureaucracy and government regulation. The Council feels that in the past insufficient attention has been paid to those aspects of provincial regulations which affect, in a detrimental way, the economy of northern Ontario.

For example, transportation development, and thus economic development, is unduly hindered by the activities of Provincial regulatory agencies. Considerable inefficiencies could be avoided by limiting the regulatory and licensing power of bodies such as the Highway Transport Board. (see pages 12 - 14).
5. In addition, the Council feels that housing policies have suffered from the inappropriate application of Province-wide regulations which fail to take into account the unique and peculiar needs of many communities in northern Ontario. Various aspects of housing requirements and regulations could be relaxed without any detrimental effects on safety or health considerations. This would help to increase the supply of housing. (see pages 14 - 15).

6. In view of the projected expansion of Ontario's forest industry, public policy decisions will play an important role in shaping a conducive environment for adequate development of these resources. In particular there are increasing pressures for greater public expenditures for forest management and infrastructure development. The Council is of the view that any such expenditures should be conditioned by the following considerations:
 - i) the sometimes conflicting demands for alternative uses of forest areas;
 - ii) the need to provide adequate support services for existing and proposed facilities;
 - iii) the need to ensure that relevant costs of forest management and infrastructure development are borne in fair proportions by industry and the public sector. (see pages 27 - 30).
7. The Council believes that public policies designed to influence northern development should be primarily concerned with their effect on people living in northern Ontario. Nevertheless to a large degree the overwhelming importance of influences external to local or regional development and the need to maintain responsible spending priorities will necessitate a commitment to achieving an efficient allocation of resources. The Council also believes that, on balance, the best method of attaining a more efficient allocation is through greater reliance on market forces: a major focus of government intervention in its development policies should be directed towards the removal of artificial barriers which hinder the free movement of goods and population.
8. The large increase in the size of government has also given it an increasingly important role — through taxation and expenditure policies — in the income transfer process. This is especially true in northern Ontario where government is frequently directly involved in the provision of goods and services. There is a need for government to ensure that spending programs and the provision of public goods and services are guided by an understanding and commitment to a standard of overall equity. This clearly implies that criteria for income transfer policies should recognize the distributional aspects of many such programs.
9. The Council believes that consideration should be given to a greater use of mobility grants in order to mitigate the effects of economic decline in certain regions and to provide an incentive for the efficient allocation of population and labour supply. (see pages 7 - 8).
10. The use of subsidized loan and incentive programs, as a tool for regional development, must be broadly based on criteria which emphasize long-term economic viability. The Council believes that the short-term bolstering of inefficient industries through the use of such programs is inappropriate and runs counter to the aims of regional development policy. (see pages 9 - 12).
11. Existing policies directed towards northern Ontario, as embodied in *Design for Development*, emanate from the concept of so called growth centres. These centres are identified as the best focus for future growth and development and, accordingly, are designated as the recipients of the major public inputs of infrastructure, feasibility studies, industrial parks, and the like. There is no disagreement with this approach, subject to the important qualification that the 'growth centres' must be chosen according to economic criteria which indicate true, long-term potential. (see pages 9 - 12).

12. We have indicated, in some detail our views of federal subsidy and incentive efforts as carried out by *DREE*. The capital-biased nature of the existing incentives are a feature which runs against the stated intent of the program. In addition, the administration of these incentives probably leads to windfall gains to investors, a misallocation of resources, interference with the market process, and potentially harmful competition with other jurisdictions in the effort to lure applicants. These observations have led the Council to the conclusion that a fundamental reassessment of these subsidies is essential.

The Council recommends that, to as great an extent as possible, incentive grants should not be biased in the direction of either capital or labour intensity. This would permit greater discretion on the part of recipients.

The Council also recommends that, with respect to incentives and industrial assistance programs, there be meaningful co-operation and liaison between Federal and Provincial bodies in order to avoid costly duplication or other counter productive activities. (see pages 17 - 20).

13. The mineral industry has historically been an extremely important factor in the economic health of northern Ontario. However, the present set of Federal and Provincial policies is contributing to the uncertainties surrounding the future viability of industry in the region. The Council urges that this uncertainty be moderated by:
- i) a continuing effort to resolve the Federal-Provincial revenue sharing controversy;
 - ii) consideration of the amendment of Section 113 of the *Mining Tax Act* so as to provide greater certainty for potential investors;
 - iii) careful monitoring and assessment of the processing allowance system to determine its impact on the development of secondary industry (see pages 21 - 27).

DISSENTING COMMENT

I must dissent from the conclusion of my colleagues that a lessening of regulations of transportation facilities in northern Ontario would lead to an entry of private entrepreneurs, thus lessening transportation costs. Most transportation facilities in northern Ontario, railway and airlines are run as a convenience or service for the people of that area. Most residents of Ontario accept the loss as a proper charge on the taxpayers to provide proper transportation services.

If the regulations are lessened or abolished it will mean prime routes where profits can be made would go to the private owner while less desirable (unprofitable) routes would be left to be subsidized by the people of the province.

I cannot subscribe to such a philosophy be it in transportation, housing or any other sphere of activity.

David B. Archer

The implications of the recommendation of this review, that the role of government in the north should be "... to allow basic market forces to determine the location and level of economic activity ...", could hardly be less sensitive to the historic or present needs of the people of the north, and their place and importance in our Province. The corollary of this, that "out-migration" is an important alternative to development, is particularly insensitive to the reality that people everywhere, almost without exception, have demonstrated their interest in remaining in their home situation. If we wish the entire Province to develop in some appropriate way, there must be recognition of the wishes of its people, not simply of "... basic market forces ...".

It is undoubtedly true that factors extrinsic to the north, to Canada itself, will have much effect on economic development. As nearly as can be judged, however, there seems little doubt that the world demand for minerals and timber resources will be high, and that one of our basic obligations is to plan the development of our resources in ways that permit citizens in the north to have a full opportunity to share in work, and to live in communities which provide a full range of material, social and cultural amenities. Industries which profit from resource exploitation must be committed to such goals, and government policies concerning such matters as taxation, regulation and incentives must be directed towards and tested in relation to the achievement of them.

Lynn R. Williams

FOOTNOTES

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4. *Ibid.*
5. Department of National Revenue, *Taxation Statistics*, 1963, 1968, 1973.
6. *Ibid.*
7. *Ibid.*
8. Richardson, H.W., *Regional Economics*, 1969, p. 367.
9. *Design for Development*. Various publications. Government of Ontario.
10. *Design for Development: Northwestern Ontario Region*. Phase 2: Policy Recommendations. Government of Ontario, October 13, 1970, p.39.
11. *Ibid.*
12. *Ibid.*
13. *Ibid.*, p. 57
14. *Ibid.*, p. 71
15. Premier William Davis, *News Release*, May 13, 1975. p. 2. Ministry of Treasury, Economics and Intergovernmental Affairs. Government of Ontario.
16. *Ibid.*
17. *Ibid.*, pp. 4 and 5.
18. Canada — Ontario, *General Development Agreement*, February 26, 1974.
19. Canada — Ontario, *Northwestern Ontario Subsidiary Agreement*, May 31, 1974.
20. *Ibid.*
21. *Ibid.*

22. Canada — Ontario, *Subsidiary Agreement, Dryden Development Infrastructure*.
23. *Ibid.*
24. Premier William Davis, *News Release*, May 13, 1975. p. 2. Ministry of Treasury, Economics and Intergovernmental Affairs. Government of Ontario.
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30. *Ibid.*, p. 33.
31. "Financial Services Programs", *Northern Ontario Development Corporation, no date*, p. 1.
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34. *Ibid.*, p. 12.
35. Obtained through communications with NODC officials.
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38. *Ibid.*, p. 1.
39. *Ibid.*, p. 2.
40. Woodward, *op. cit.*, p. 166.
41. Woodward, R., "The Effectiveness of DREE's New Location Subsidies", *Canadian Public Policy*, Spring, 1975. p. 229.

42. Usher, *op. cit.*, p. 33.
43. *Ibid.*, pp. 39-42.
44. *Ontario Mineral Review*, 1974, Ministry of Natural Resources, Government of Ontario.
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46. *Ibid.*, p. 8.
47. *Ibid.*, p. 9.
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49. *Design for Development*, Northwestern Region, Phase 2: Policy Recommendations.
50. *Directions for Economic and Social Policy in Ontario*, Report of the Ontario Joint Committee on Economic Policy, August, 1974, p. 27.
51. *Foreign Ownership and the Mining Industry*, Select Committee on Economic and Cultural Nationalism, October, 1975, p. 7.
52. *The Mining Act*; Revised Statutes of Ontario, 1970; Chapter 274, August, 1972, Queen's Printer: Toronto, pp. 55-56.
53. Select Committee, *op. cit.*, pp. 92-93.
54. "Towards an Iron Ore Policy for the Province of Ontario", *Mineral Policy Background Paper No:2*, Ministry of Natural Resources, Government of Ontario, April 1975, p.5.
55. *Ibid.*, p. 5.
56. *Ontario Mineral Review*, 1974, p. 94.
57. Select Committee, *op. cit.*, p. 99.
58. *Mining Tax Act*, 1972; Statutes of Ontario, 1972, Chapter 140 as amended by 1974, Chapter 132 and Ontario Regulation 126/75 General, March, 1975, p. 4-6.
59. *Ibid.*, p. 7.
60. *Public Accounts of Ontario*, various years and *Ontario Mineral Review*, 1974.
61. *Budget Address*, April, 1974.
62. Since this paper was prepared, the Ontario government has announced a significant change in the processing allowance scheme. For the next five years mining companies

will be allowed to deduct the cost of processing ores outside Canada as a business expense. This will mean that the incentive for further processing in Canada will be somewhat reduced. See the *Toronto Globe and Mail*, Dec. 24, 1975.

63. *The Northern Miner*, March 20, 1975.
64. *Forest Production Policy Options for Ontario*, Ministry of Natural Resources, Government of Ontario, April, 1972, p. 1.
65. *Ibid.*, p. 19.
66. Various news releases.
67. *Crown Timber Act.*, Revised Statutes of Ontario, 1970, amended February, 1975.
68. *Crown Stumpage in Ontario*, Ministry of Natural Resources, Government of Ontario, September 1974, p. 1.
69. *Ibid.*, p. 4.
70. *Ibid.*, p. 31-32. After this paper had been prepared the *Report of The Timber Revenue Task Force* was made public by the Provincial Government. This *Report* recommended indexing provincial timber royalties to the prices of end products so as to relate the prices for Crown timber to the cyclical movements of the industry. See *Toronto Globe and Mail*, Dec. 24, 1975.

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